



AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

Auditor-General of South Africa

Umvoti Municipality - audit report 2015-16

Report of the auditor-general to the KwaZulu-Natal Provincial Legislature and the council on Umvoti Municipality

Report on the financial statements

Introduction

1. I audited the financial statements of the Umvoti Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2016, the statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget with actual information for the year then ended, as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Local Government: Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2015 (Act No. 1 of 2015) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-general's responsibility

3. My responsibility is to express an opinion on the financial statements based on my audit. I conducted my audit in accordance with the International Standards on Auditing. Those standards require that I comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the municipality's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Umvoti Municipality as at 30 June 2016 and its financial performance and cash flows for the year then ended, in accordance with the SA Standards of GRAP and the requirements of the MFMA and DoRA.

Emphasis of matters

7. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Material underspending of conditional grant

8. As disclosed in note 25 to the financial statements, the municipality has materially underspent the small town rehabilitation grant by R5,27 million. This resulted in the municipality not achieving some of its planned service delivery targets for the year.

Material losses

9. As disclosed in note 40 to the financial statements, material electricity losses of 8,45 million (2015: 7,57 million) kilowatts amounting to R7,31 million (2015: R5,10 million) were incurred as a result of technical and non-technical distribution losses.

Additional matter

10. I draw attention to the matter below. My opinion is not modified in respect of this matter.

Unaudited disclosure notes

11. In terms of section 125(2)(e) of the MFMA the municipality is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement did not form part of the audit of the financial statements and accordingly I do not express an opinion thereon.

Report on other legal and regulatory requirements

12. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to raise findings on the reported performance information against predetermined objectives for selected objectives presented in the annual performance report, compliance with legislation and internal control. The objective of my tests was to identify reportable findings as described under each subheading but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

Predetermined objectives

13. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for objective two: basic service delivery and infrastructure; objective three: local economic development and objective five: financial

viability and financial management presented in the annual performance report of the municipality for the year ended 30 June 2016.

14. I evaluated the reported performance information against the overall criteria of usefulness and reliability.
15. I evaluated the usefulness of the reported performance information to determine whether it was consistent with the planned objectives. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's Framework for Managing Programme Performance Information (FMPPI).
16. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
17. The material findings in respect of the selected objectives are as follows:

Local economic development

Usefulness of reported performance information

Measurability of indicators and targets

Performance indicators not well defined

18. The FMPPI requires that performance indicators should be clearly defined so that data can be collected consistently and is easy to understand and use. A total of 25% of indicators were not well defined.

Reliability of reported performance information

19. The FMPPI requires auditees to have appropriate systems to collect, collate, verify and store performance information to ensure reliable reporting of actual achievements against planned objectives, indicators and targets. Adequate and reliable supporting evidence could not be provided for the reported achievements against planned targets of 25% of indicators.
20. I did not raise any material findings on the usefulness and reliability of the reported performance information for objective two: basic service delivery and infrastructure and objective five: financial viability and financial management.

Additional matters

21. I draw attention to the following matters:

Achievement of planned targets

22. The annual performance report on pages x to x and x to x, which includes information on the achievement of the planned targets for the year, should be considered in the context of the material findings on the usefulness and reliability of the reported performance information for the selected objectives reported in paragraphs 19 to 20 of this report.

Adjustment of material misstatements

23. I identified material misstatements in the annual performance report submitted for auditing on the reported performance information for the financial viability and financial management objective. As management subsequently corrected only some of the misstatements, I raised material findings on the usefulness and reliability of the reported performance information.

Compliance with legislation

24. I performed procedures to obtain evidence that the municipality complied with applicable legislation regarding financial matters, financial management and other related matters. My material findings on compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA, are as follows:

Annual financial statements

25. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements of disclosure items identified by the auditors in the submitted financial statements were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

Expenditure management

26. Reasonable steps were not taken to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA.

Consequence management

27. Irregular expenditure incurred by the municipality was not investigated to determine if any person was liable for the expenditure, as required by section 32(2)(b) of the MFMA.

Conditional grants

28. The municipality did not evaluate its performance in respect of programmes funded by the integrated national electrification programme grant allocation, as required by section 12(5) of DoRA.

Strategic planning and performance management

29. The annual performance report for the year under review did not include measures taken to improve performance, as required by section 46(1)(c) of the Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA).
30. The adopted integrated development plan did not reflect and identify all the development objectives, in contravention of sections 26 and 41 of the MSA and municipal planning and performance management regulation 2(1)(c).
31. The performance management system and related controls were inadequate as they did not describe and represent the processes of performance planning, monitoring, measurement, review and reporting and how they are conducted, organised and managed, including determining the roles of the different role players, as required by section 38 of the MSA and regulation 7 of the Municipal Planning and Performance Management Regulations.

Human resource management

32. Senior managers directly accountable to the municipal manager did not sign performance agreements, as required by section 57(2)(a) of the MSA.
33. The annual performance agreements for the municipal manager and one senior manager were not linked to the measurable performance objectives approved with the budget and to the service delivery budget implementation plan as required in terms of section 53(1)(c)(iii) of the MFMA and section 57(1)(b) of the MSA.

Procurement and contract management

34. Bid adjudication committees were not always composed in accordance with the Municipal supply chain management regulations (GNR 868 of 30 May 2005) (SCM) 29(2).
35. Contracts were awarded to bidders that did not score the highest points in the evaluation process, in contravention of section 2(1)(f) of the Preferential Procurement Policy Framework Act.
36. I could not obtain sufficient appropriate audit evidence that contracts were awarded only to bidders who submitted a declaration on whether they were employed by the state or connected to any person employed by the state, as required by SCM regulation 13(c).
37. Awards were made to providers who were in the service of other state institutions or whose directors or principal shareholders were in the service of other state institutions, in contravention of section 112(j) of the MFMA and SCM regulation 44.
38. I could not obtain sufficient appropriate audit evidence that all extensions or modifications to contracts were approved by a properly delegated official, as required by SCM regulation 5.
39. Goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by SCM regulation 19(a). Deviations were approved by the accounting officer even though it was not impractical to invite competitive bids, in contravention of SCM regulation 36(1).

Internal control

40. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with legislation. The matters reported below are limited to the significant internal control deficiencies that resulted in the findings on the annual performance report and the findings on compliance with legislation included in this report.

Leadership

41. Council and the accounting officer did not provide adequate oversight to ensure that financial statements were accurate, the annual performance report was useful and reliable and that all applicable legislation was complied with.

Financial and performance management

- 42. Management did not implement adequate controls to ensure compliance with the requirements of the municipal SCM regulations, MFMA and other key legislation.
- 43. Management did not adequately review the financial statements to ensure that they were accurate and complete. There were inadequate monitoring processes to ensure measurability and reliability of planned and reported indicators and targets.

Auditor-General

Pietermaritzburg

30 November 2016



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